



European Commission
Directorate-general of Agriculture

Newsletter

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Proposed overhaul of the sugar market

On 4 October, the Commission adopted a proposal for modifying⁽¹⁾ the common organisation of the market (COM) in sugar. The proposal makes several substantial changes to the current arrangements: in particular, reducing production quotas by 115 000 tonnes and discontinuing the reimbursement of storage costs to producers. The production quota system, production levies and preferential import arrangements (ACP countries and India) would be maintained until the 2002/03 marketing year. The proposal aims to increase competition in the sector, maintain reasonable prices for sugar on the Community market and simplify the rules. It must deal with the challenge of overproduction on a market characterised by very low world prices, taking into account the strict limits on exports with refunds under the GATT agreements.

The current COM in sugar (see box) remains in force until the end of the 2000/01 marketing year, i.e. until 30 June 2001, and a Council Decision on its review will be required of before 31 December 2000. The proposal amounts to a temporary solution before a more fundamental reform can be envisaged at the end of the 2002/03 marketing year. The Commission

wants the reform to be built on solid foundations, on the basis of detailed impact studies and taking into account the budgetary situation, the Union's enlargement process and the progress of the WTO negotiations on agriculture. For the time being, the system of production quotas (which fixes a quantitative framework for export refunds) is to be maintained, as well as production levies (which finance these refunds). The main changes proposed are as follows:

- Reducing quota levels by 115 000 tonnes, which corresponds to 50% of the annual structural surplus authorised for export within GATT limits. This reduction will be applied proportionately to all national quotas (see box) according to a mechanism established in current legislation. In addition, the annual quota reduction procedure, which enables the Community to comply with its WTO commitments, will continue to be applied with the flexibility afforded by the existing provisions.

(cont'd on page 2)

(1) See press release IP/00/1109 at:

<http://www.europa.eu.int/rapid/start/welcome.htm>.

How the COM in sugar works today

The COM in sugar, whose last reform dates back to 1995, is currently governed by Regulation (EC) No 2038/1999. Its main features are as follows:

- **Institutional prices** (prices fixed to support the Community market): a **minimum price** that sugar producers have to pay to farmers for sugar beet or sugar cane, and an **intervention price** at which intervention agencies buy in all the sugar offered to them by Community producers. These prices are fixed each year by the Council on a proposal from the Commission; they have remained frozen since 1985. The intervention mechanism has not been used since 1986 as a result of the possibility of adapting production quotas each year (see below).
- A trade regime with third countries, involving **import duties** paid by importers of sugar from third countries, and **export refunds** paid to Community exporters. This arrangement takes account of the substantial difference

between sugar prices on the Community market and prices on the world market. Preferential agreements have been concluded with the ACP countries and India.

- Production control by means of **quotas** (fixed by country and by company) under which producers benefit from guaranteed prices. The "A quotas" correspond more or less to Community domestic demand and the "B quotas" to the quantities which can be exported with export refunds. Non-quota sugar or "C sugar" is sugar produced over and above the combined total of A and B quotas; it is exported without refund. Quotas can be adapted annually taking into account production, consumption, stocks and imports. Exports under quotas are of two types:
 - net exports (of Community surplus production), giving rise to refunds financed under a system of **self-financing** via contributions (in the form of **production levies**) paid entirely by all the producers (farmers and the sugar industry);
 - re-exportation, financed by the Community budget, of products imported under preferential agreements with the ACP countries and India.

- Discontinuing the reimbursement of storage costs. Apart from saving about EUR 300 million in EAGGF expenditure a year, this would mean more competition to the benefit of trade, sugar-using industries and consumers. The Commission also proposes to abolish the minimum storage obligation for coping with a possible crisis situation.
- 100% self-financing of the production refunds for sugar and isoglucose used by the chemical industry (self-financing is at present only partial).

The continued application of the preferential import arrangements is based on the obligations arising from the Cotonou Agreement of 2 and 3 February 2000

with the ACP countries and from the Agreement of 15 July 1975 with India. The aim is also to ensure supplies to refineries in the Union which depend on imports of raw sugar from these countries.

The Commission adopted the proposal after having studied alternative solutions to replace the system of quotas. The model recommended in Agenda 2000 (for example, a 25% reduction in the intervention price in order to limit production, combined with 50% compensation to be granted to producers) would have involved additional expenditure of EUR 1 125 million, not provided for in the budgetary framework agreed at the Berlin Summit.

News in brief

Liberalisation of agricultural trade with Poland

On 27 September, after a year and a half of negotiations, Poland and the European Commission reached an agreement on reciprocal and balanced liberalisation of a very substantial proportion of agricultural trade between the Union and Poland, covering a volume of trade worth more than EUR 1 billion. About three quarters of Polish exports of agricultural products to the Union will be free from customs duties. The principal products concerned are fruit and vegetables (practically the whole range), beef and veal, pig-meat, poultrymeat, cheese, butter, milk powder and wheat. For all the products for which Poland had increased import duties, the solutions envisaged will guarantee that exports from the Union will be able to revert to their previous levels. The agreement (still to be approved by the Member States and which should enter into force on 1 January 2001) closes the round of bilateral negotiations on this subject with all the applicant countries of central and eastern Europe (see Newsletter No 23).

Adoption of rural development programmes

By 11 October, 53 rural development programmes had been adopted by the Commission out of a total of 69 plans presented by the Member States for the period 2000-06⁽¹⁾. For the record, these programmes implement the rural development policy, the "second pillar" of the CAP, through a broad range of measures aimed at supporting a viable, multipurpose and environment-friendly agriculture and reinforcing the economic and social fabric of rural areas. Adoption of all the programmes is to be completed in the coming months as soon as the current negotiations have been finalised. In addition to these programmes, mention should be made of the rural development measures,

also financed by the Guarantee Section of the EAGGF, which the French authorities have chosen to incorporate into 20 regional development programmes under Objective 2 of the Structural Funds (redevelopment zones), currently in the process of being studied. Lastly, the rural development measures financed by the Guidance Section of the EAGGF are incorporated into the regional development programmes under Objective 1 (less developed regions). By 11 October, 26⁽²⁾ of these programmes had been adopted out of the total also of 69. Summaries of the programmes and useful addresses will become available on the Internet. For rural development programmes: DG AGRI site, <<http://europa.eu.int/comm/dg06/index.htm>>. For the rural development measures in the programmes under Objectives 1 and 2: DG REGIO site, <<http://inforégio.cec.eu.int>>.

(1) Cf. Newsletters Nos 13, 15, 17, 20, 21 and 26.

(2) i.e. 11 single programming documents (SPDs) and 15 operational programmes (OPs). OPs implement the Community Support Frameworks (CSFs); by 11 October, six CSFs had been adopted out of seven plans presented.

Proposal for resolving the banana dispute

At the General Affairs Council of 10 October, the Fifteen took the view that the Commission communication of 4 October⁽³⁾ concerning Community banana imports constituted a basis for a settlement of this dispute within the WTO. There will be an article on this subject in the next edition of the Newsletter.

(3) See on press release IP/00/1110:

<<http://www.europa.eu.int/rapid/start/welcome.htm>>.



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